

Message Text

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C O N F I D E N T I A L PARIS 23510

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IMF

SUBJECT: C-20 DEPUTIES FIRST DAY'S SESSION -- SEPTEMBER 5

FOR TREASURY SECRETARY SHULTZ

IMMEDIATELY AFTER OPENING OF MEETING, EUROPEANS (WITH ITALIANS, OSSOLA, AND DUTCH, ORT, LEADING THE WAY) BACKED ALMOST COMPLETELY AWAY FROM MORSE LANGUAGE ON ADJUSTMENT AND ARGUED MORE STRIDENTLY FOR "FULL ASSET SETTLEMENT" SYSTEM OF CONVERTIBILITY.

ON ADJUSTMENT, THEY NOT ONLY RETREATED CONSIDERABLY FROM THE MOE SYMPATHETIC POSITIONS PUT FORWARD AT MINISTERIAL MEETING IN JULY, BUT TO SOME EXTENT APPEARED LESS FORTHCOMING THAN IN DEPUTIES MEETING IN MAY. THEY PROPOSED THAT IN SOME KEY SENTENCES REFERENCES TO RESERVE INDICATORS BE ELIMINATED, AND THAT IN OTHERS THEY BE CHANGED TO "OBJECTIVE" INDICATORS OR OTHERWISE WATERED DOWN. THEY REITERATED OLD ARGUMENTS ABOUT DIFFICULTY OF USING RESERVES AS INDICATORS PRESUMPTIVELY. THEY ALSO OBJECTED TO APPLICATION OF GRADUATED FINANCIAL PRESSURES BASED ON INDICATOR POINTS. GERMANS (POEHL) BACKED OFF A LONG WAY FROM SCHMIDT'S JULY STATEMENTS ABOUT RELATING RESERVE INDICATORS TO A CLEAR AND MEASURABLE OBLIGATION OF EACH COUNTRY TO MAINTAIN PAYMENTS EQUILIBRIUM. FRENCH (PIERRE-BROSSOLETTE) CONTENDED THAT NO ONE BUT UNITED STATES WAS INTERESTED IN INDICATORS (WHICH HE CALLED AN "ABSTRACTION" AS OPPOSED TO THE REALITIES OF A CONVERTIBILITY

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SYSTEM). HE COMPLAINED THAT "EVERYONE ELSE" HAD GIVEN IN ON VARIOUS

POINTS IN SPIRIT OF COMPROMISE, BUT U.S. HAD CHANGED NOTHING FROM ITS ORIGINAL PROPOSAL LAST SEPTEMBER. HE OBJECTED TO TALK ABOUT "STRICT" CONVERTIBILITY OR "SOFT" CONVERTIBILITY, AS THERE WAS ONLY ONE KIND OF CONVERTIBILITY -- THAT BEING A FULL ASSET SETTLEMENT SYSTEM IN WHICH EACH COUNTRY PAID ITS DEBTS. LDCS REPEATED THEIR USUAL ARGUMENTS FOR EXCLUSION FROM ANY ADJUSTMENT PRESSURES OR ANY LIMITATIONS ON THEIR FREEDOM OF ACTION. THERE WERE A FEW VOICES WHICH WERE MORE SYMPATHETIC TO MORSE'S ATTEMPT TO FORMULATE COMPROMISE, AND WERE WILLING TO WORK ON BASIS THAT LANGUAGE (MAINLY CANADIANS, HOOD). BUT THESE WERE MINORITY. GENERAL TENOR OF DISCUSSION WAS STRONGLY INFLUENCED BY EUROPEAN RETREAT.

U.S. SPOKESMAN EXPRESSED DEEP REGRET AT APPARENT RETREAT OF EUROPEANS AND OTHER FROM VIEWS EXPRESSED AT JULY MINISTERS' MEETING AND EVIDENT SPIRIT AT THAT MEETING TO REACH AGREEMENT. FELT MUCH MORE DEPRESSED ABOUT PROSPECTS FOR SOLUTION. ON ADJUSTMENT, U.S. SAID MORSE MODEL DID NOT REPEAT NOT MEET U.S. VIEWS IN CERTAIN IMPORTANT RESPECTS, BUT WE WERE PREPARED TO TRY TO WORK OUT AGREEMENT ON BASIS OF MORSE'S MODEL. ON CONVERTIBILITY, U.S. SAID THERE WAS NEED TO SEPARATE NUMBER OF ISSUES WHICH WERE BECOMING CONFUSED BY BEING LUMPED TOGETHER -- E.G., DIRECT VERSUS INDIRECT SETTLEMENT, MANDATORY VERSUS NON-MANDATORY CONVERTIBILITY, CONSOLIDATION, ETC. U.S. DID NOT STRONGLY PRESS PARTICULAR POSITION ON THESE SEPARATE PARTS OF CONVERTIBILITY QUESTION.

IN AFTERNOON SESSION (RESTRICTED TO DEPUTIES ONLY), THERE WAS FURTHER DISCUSSION ON SAME MAJOR TOPICS OF ADJUSTMENT AND CONVERTIBILITY, AND TO SOME EXTENT ATTITUDES WERE LESS DOGMATIC. NONETHELESS, SAME BASIC DIFFERENCES REMAINED AND THERE WAS LITTLE BASIS FOR OPTIMISM THAT MEANINGFUL AGREEMENT COULD BE REACHED AT PRESENT MEETING.

EVEN BEFORE SEPT 5 SESSION, MORSE HAD BEGUN TO SHOW GREATER WILLINGNESS NOT TO SEEK AGREEMENT ON A DRAFT OUTLINE REPRESENTING FIRM GOVERNMENTAL COMMITMENT, BUT RATHER TO LOOK TOWARDS SOME FORM OF "CHAIRMAN'S REPORT," INDICATING TREND OF C-20 THINKING, BUT WITH LESS COMMITMENT TO DETAILS.

SEPT. 6 MEETING EXPECTED TO MOVE FROM DISCUSSION OF ADJUST-
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MENT AND CONVERTIBILITY TO CONSIDERATION OF THEIR POINTS IN DRAFT OUTLINE. U.S. SUBMITTED DETAILED COMMENTS ON DRAFT OUTLINE ALONG LINES DRAFTED IN WASHINGTON LAST WEEK.

TOMORROW IS ANOTHER DAY, BUT AS OF TONIGHT (SEPT. 5) THERE IS
DAMN
LITTLE TO LOOK FORWARD TO.
IRWIN

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